

**CITY OF LITCHFIELD, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED JUNE 30, 2005**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

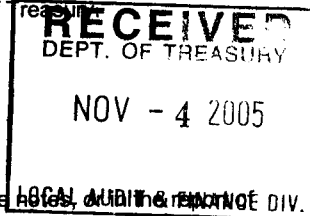
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Litchfield</b>	County <b>Hillsdale</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/17/05</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, and in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Osbourne, March, Condon &amp; Co., P.C.</b>			
Street Address <b>184 W Carleton Rd</b>	City <b>Hillsdale</b>	State <b>MI</b>	ZIP <b>49242</b>
Accountant Signature <i>Stephen W. Birker, CPA</i>		Date <b>11/3/2005</b>	

CITY OF LITCHFIELD, MICHIGAN

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Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Litchfield, Michigan  
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City of Litchfield, Michigan included in its basic financial statements its investment in Litchfield Fire Department, a joint venture between the City and Litchfield Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. The joint venture financial activities, as described in Note 2, are included in the City's basic financial statements as governmental activities and represent 2.9%, 2.8%, and 10% of the assets, net assets, and expenses, respectively, of the City's aggregate governmental activities.

In our opinion, except for the effects of such adjustments to governmental activities financial statements, if any, as might have been determined to be necessary had the Litchfield Fire Department's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2005 on our consideration of City of Litchfield, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparisons information on pages iii through vii and 31 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan  
August 17, 2005

Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Litchfield (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

**Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2005:

- Property taxes are the City's single, largest source of revenue. The City's tax base, net of captured taxable value, for fiscal year 2005 was \$24,794,200 which represents an increase of \$7,091 or 2.3 percent over fiscal year 2004.
- State shared revenue, the second largest revenue source was reduced by the State of Michigan by approximately \$4,700 this year. This represents a 3.2 percent decrease from the prior year.
- Act 51 monies, received from gasoline tax through the State of Michigan, the third largest revenue source, decreased by approximately \$2,300 this year. This represents a 2.0 percent decrease from the prior year.
- The City's largest expense for fiscal year 2005 was general governmental activities at \$281,335.

**Using the Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

## Management's Discussion and Analysis

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year in comparison to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 640,388	\$ 499,233	\$ 1,372,415	\$ 1,267,800	\$ 2,012,803	\$ 1,767,033
Capital assets	1,319,841	1,197,141	2,371,984	2,638,745	3,691,825	3,835,886
Other noncurrent assets	33,778	29,646			33,778	29,646
<b>Total Assets</b>	<b>\$ 1,994,007</b>	<b>\$ 1,726,020</b>	<b>\$ 3,744,399</b>	<b>\$ 3,906,545</b>	<b>\$ 5,738,406</b>	<b>\$ 5,632,565</b>
Current liabilities	\$ 66,725	\$ 56,057	\$ 123,789	\$ 151,395	\$ 190,514	\$ 207,452
Long-term liabilities	37,160	35,231	915,000	1,030,000	952,160	1,065,231
<b>Total Liabilities</b>	<b>\$ 103,885</b>	<b>\$ 91,288</b>	<b>\$ 1,038,789</b>	<b>\$ 1,181,395</b>	<b>\$ 1,142,674</b>	<b>\$ 1,272,683</b>
<b>Net Assets:</b>						
Invested in capital -						
net of related debt	\$ 1,303,230	\$ 1,156,973	\$ 1,336,834	\$ 1,493,746	\$ 2,640,064	\$ 2,650,719
Restricted	35,209	9,259	209,028	196,928	244,237	206,187
Unrestricted	551,683	468,500	1,159,748	1,034,476	1,711,431	1,502,976
<b>Total Net Assets</b>	<b>\$ 1,890,122</b>	<b>\$ 1,634,732</b>	<b>\$ 2,705,610</b>	<b>\$ 2,725,150</b>	<b>\$ 4,595,732</b>	<b>\$ 4,359,882</b>
<b>Total Net Assets and Liabilities</b>	<b>\$ 1,994,007</b>	<b>\$ 1,726,020</b>	<b>\$ 3,744,399</b>	<b>\$ 3,906,545</b>	<b>\$ 5,738,406</b>	<b>\$ 5,632,565</b>

The City's combined net assets increased by approximately 5.4 percent from a year ago – increasing from \$4.3 million to \$4.6 million.

Total assets of governmental activities increased 15.5 percent or \$268,000. This is a result of increases in current and non current assets. The increase in current assets in the amount of \$141,000 is primarily due to the City allocating these current resources to fund future street projects. The total non-current assets of governmental activities increase of \$127,000 can be attributed to the booking of salvage value on city buildings, the refinishing of the municipal pool's surface, a new copy machine and acquiring new optical scan voting equipment through a grant from the State of Michigan.

Total assets for business type activities decreased 4.1 percent by \$162,000. This is a net result of total current assets increasing \$104,000 and total non-current assets decreasing \$266,000. The current asset increase is due to lower maintenance and interest expense in sewer fund. The total non-current assets decrease of \$266,000 is due to assets fully depreciating.



## Management's Discussion and Analysis

The following is the government-wide results of operations for the current fiscal year in comparison to prior year:

	Governmental Activities <u>2005</u>	Business-type Activities <u>2005</u>	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>
Revenue				
Program Revenue:				
Charges for services	\$ 63,434	\$ 326,235	\$ 56,619	\$ 328,684
Operating grants and contributions	168,533	150,602	205,523	150,165
Capital grants and contributions	6,945			
General Revenue:				
Property taxes	368,155		356,880	
State-shared revenues	138,535		143,234	
Licenses and permits	8,999		9,008	
Fines, fees, and forfeits	1,997	19,655	6,026	
Interest	13,137		11,477	15,426
Other			380	
Public charitable contributions	38,182			
Lease revenue	5,385		5,385	
Transfers in	48,800		44,800	
Transfers out		(46,800)		(44,800)
Total Revenue	<u>\$ 862,102</u>	<u>\$ 449,692</u>	<u>\$ 839,332</u>	<u>\$ 449,475</u>
Program Expenses				
General government	\$ 281,335	\$	\$ 253,798	\$
Public safety	233,165		296,313	
Highways and street	51,241		52,786	
Public works	92,355		80,854	
Parks and recreation	58,557		64,982	
Depreciation (unallocated)	33,169		31,778	
Water		149,398		111,279
Sewer		177,027		192,947
Refuse		45,395		40,540
	<u>\$ 749,822</u>	<u>\$ 371,820</u>	<u>\$ 780,511</u>	<u>\$ 344,766</u>
	<u>\$ 112,280</u>	<u>\$ 77,872</u>	<u>\$ 58,821</u>	<u>\$ 104,709</u>

Total governmental activities expenses decreased 3.9 percent or \$30,000 primarily because the City went from having five full time police officers to four full time police officers.

Total business type activities expenses increased 7.8 percent due primarily to a \$38,000 increase in water funds expenses. There were increases in water expenses for well preventative maintenance, electricity for a well that was pumped continuously when a faulty sample was received, and payroll to resample those wells until a good sample was received.

Expenses for component units decreased \$286,000 as a result of the Tax Increment Financing Authority focusing more on residential housing development this year instead of industrial park development as they did in the prior year. The cost to develop the residential housing is anticipated to be off set in part by the sale of lots, therefore the cost was capitalized. Industrial park development expenses are not anticipated to be off set by any sales, consequently the development cost was considered expense.

Management's Discussion and Analysis

A decrease in operating grants and contributions in the amount of \$37,000 is due to the Tax Increment Finance Authority contributing an extra allocation toward capital outlays in the previous year.

Total General revenues increased 4.4 percent by \$28,000 primarily due to the public charitable contributions to the municipal pool refinishing project.

**Governmental Activities**

In fiscal year 2005, there were decreases experienced in 1) general other revenue due to the sale of an old police car in the prior year, 2) in fines due to a decrease in Industrial Facilities Tax exemption applications, 3) in component unit contributions due to an extra amount allocated the prior year, 4) state revenues due to a cut in state shared revenues and 5) Act 51 monies, revenue received from the State of Michigan from gasoline tax for local and major street operations due to an economic slowdown. These losses of revenue were offset by an increase in the City's tax base and charges for internal services and the cost savings realized by not replacing a full time police officer that resigned. The increase in property tax base is a result of inflationary increases in existing parcels. There has been no increase in the operating millage rate. The City millage rate continues at 13 mills.

The need to refinish the surface of the municipal pool generated substantial donations and grants from the community that allowed the City to complete the project without dipping into the City's fund balance.

**Business-type Activities**

The City's business-type activities consist of the Water, Sewer and Refuse Funds. The City operates both Water and Sewer facilities. Refuse collection and recycling services are provided by an outside commercial entity.

Charges for services in the Water and Sewer operations decreased by 2 percent, primarily due to the decline in water consumption by the community. This is attributable to cooler summer weather conditions in recent years. Expenses increased by 2 percent primarily due to well preventative maintenance expense that was shifted from June 2005 to after July 1, 2005 leaving the previous fiscal year without this expense.

**The City's Funds**

The City's major fund reports follow the government-wide financial statements. The fund financial statements provide detailed information about the significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2005 include the General Fund, Major Street Fund, Local Street Fund and Recreation Fund.

**General Fund Highlights**

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

The General Fund pays for most of the City's governmental services. The most significant are general governmental activities, which incurred expenses of approximately \$281,000 in 2005. Expenses for general government are recorded in the "general" department within the General Fund.

**Capital Asset and Debt Administration**

At the end of fiscal year 2005, the City had approximately \$3,691,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, public works equipment, and water and sewer facilities. There is no related infrastructure reported in the year end net capital investment. The City elected to follow the method of prospective reporting of infrastructure assets provided in the GASB 34 reporting pronouncement.

The City continues to pay down debt obligations related to capital investments. Outstanding revenue bonds, for the construction of sewer facilities, reported in the Sewer Fund in the amount of \$1,030,000 represents 98% of the City's total debt obligations at June 30, 2005. Historically, the City's Tax Increment Financing Authority has contributed \$150,000 annually towards the repayment of the debt.

The City also funds equipment replacements by setting aside cash in the General Fund and maintains an Equipment Fund. The Equipment Fund charges City departments for the use of equipment. Monies collected accumulate towards the replacement of equipment. The City properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

**Economic Factors and Next Year's Budgets and Rates**

The general operating millage will not be increased for next year, despite no projected increase in State-shared revenue. Certain expenditures are assumed to continue beyond the rate of inflation, such as health care insurance and liability insurance. Expenditures relating to the contract agreement with Litchfield Township pertaining to the Litchfield Fire Department, a joint venture between the City and Township, may vary from the current year if changes occur to the said agreement in the subsequent period.

In June of 2005, the Township of Litchfield elected not to use City services for cemetery purposes effective July 1, 2005. Absent a new contract, Litchfield Township terminated the cemetery contract that has been in effect since 1993. The City employee that was providing cemetery services per contract can now be part of a four man DPW team to recoup revenue that could not be captured with a three man DPW team through projects such as a meter replacement program. Having another DPW employee available during the spring, summer and fall months will allow the City to complete some projects "in-house" that would otherwise have to be contracted out. This capability will save the City money.

Interest rates are on the upswing and revenue generated from investments is anticipated to double from what was received in the previous fiscal year.

Management's Discussion and Analysis

**Economic Factors and Next Year's Budgets and Rates (concluded)**

Pay rates for police officers will be brought within the police step scale program adopted by City Council in 2001 and adjusted annually by the increase approved for all other City employees. This adjustment will increase police payroll by approximately 13%.

There were no significant variances between budget and actual results.

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements of the City's component units, Tax Increment Finance Authority (TIFA) or Downtown Development Authority (DDA), we welcome you to contact the City's Administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.

CITY OF LITCHFIELD, MICHIGAN  
GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	TOTAL
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 551,652	\$ 1,309,557	\$ 1,861,209
Investments			
Accounts receivable	1,288	9,140	10,428
Land contract receivable			
Note receivable - current portion	5,000		5,000
Due from other governments	73,698		73,698
Internal balances		32,945	32,945
Prepaid expense	8,750		8,750
Inventory		20,773	20,773
Total Current Assets	<u>\$ 640,388</u>	<u>\$ 1,372,415</u>	<u>\$ 2,012,803</u>
Noncurrent Assets:			
Note receivable, net of current portion	\$ 7,500	\$	\$ 7,500
Investment in joint venture	26,278		26,278
Investment in land			
Capital assets	1,830,479	6,003,627	7,834,106
Accumulated depreciation	(510,638)	(3,631,643)	(4,142,281)
Total Noncurrent Assets	<u>\$ 1,353,619</u>	<u>\$ 2,371,984</u>	<u>\$ 3,725,603</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,994,007</u></u>	<u><u>\$ 3,744,399</u></u>	<u><u>\$ 5,738,406</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable	\$	\$	\$
Long-term debt, current portion	16,611	115,000	131,611
Accrued liabilities	16,822	3,639	20,461
Accrued interest		5,150	5,150
Due to Agency fund	347		347
Internal balances	32,945		32,945
Total Current Liabilities	<u>\$ 66,725</u>	<u>\$ 123,789</u>	<u>\$ 190,514</u>
Noncurrent Liabilities:			
Compensated absences, net of current portion	\$ 37,160	\$	\$ 37,160
Long-term debt, net of current portion		915,000	915,000
Total Noncurrent Liabilities	<u>\$ 37,160</u>	<u>\$ 915,000</u>	<u>\$ 952,160</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 103,885</u></u>	<u><u>\$ 1,038,789</u></u>	<u><u>\$ 1,142,674</u></u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 1,303,230	\$ 1,336,834	\$ 2,640,064
Restricted for equipment replacement	29,939		29,939
Restricted for bond repayment		209,028	209,028
Restricted for police training	1,581		1,581
Restricted for recreation activities	3,689		3,689
Unrestricted	551,683	1,159,748	1,711,431
Total Net Assets	<u>\$ 1,890,122</u>	<u>\$ 2,705,610</u>	<u>\$ 4,595,732</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,994,007</u></u>	<u><u>\$ 3,744,399</u></u>	<u><u>\$ 5,738,406</u></u>

See accompanying notes to the basic financial statements.

COMPONENT UNITS	
TAX INCREMENT FINANCING AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY
\$ 1,643,127	\$ 7,510
410,315	
	7,383
50,000	
<u>\$ 2,103,442</u>	<u>\$ 14,893</u>
\$ 450,000	\$
840,346	
350,000	
(44,100)	
<u>\$ 1,596,246</u>	<u>\$</u>
<u>\$ 3,699,688</u>	<u>\$ 14,893</u>
\$ 113,004	\$
	1,350
<u>\$ 113,004</u>	<u>\$ 1,350</u>
\$	\$
	5,950
<u>\$</u>	<u>\$ 5,950</u>
<u>\$ 113,004</u>	<u>\$ 7,300</u>
\$ 305,900	\$
<u>3,280,784</u>	<u>7,593</u>
<u>\$ 3,586,684</u>	<u>\$ 7,593</u>
<u>\$ 3,699,688</u>	<u>\$ 14,893</u>

CITY OF LITCHFIELD, MICHIGAN  
GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	\$ 281,335	\$ 24,941	\$ 26,506	\$ 5,528
Public safety	233,165		25,000	
Highways and streets	51,241		117,027	
Public works	92,355	25,488		
Parks and recreation	58,557	13,005		1,417
Depreciation (unallocated) - excludes direct depreciation expense	33,169			
Total Governmental Activities	\$ 749,822	\$ 63,434	\$ 168,533	\$ 6,945
Business-type Activities:				
Sewer Fund	\$ 177,027	\$ 111,616	\$ 150,000	\$
Water Fund	149,398	164,894	602	
Refuse Fund	45,395	49,725		
Total Business-type Activities	\$ 371,820	\$ 326,235	\$ 150,602	\$
TOTAL PRIMARY GOVERNMENT	\$ 1,121,642	\$ 389,669	\$ 319,135	\$ 6,945
COMPONENT UNITS				
Tax Increment Finance Authority	\$ 275,308	\$	\$	\$
Downtown Development Authority	3,119			
TOTAL COMPONENT UNITS	\$ 278,427	\$	\$	\$

GENERAL REVENUES

Property taxes  
State-shared revenues  
Licenses and permits  
Fines, fees, and forfeits  
Interest  
Other  
City contribution  
Public charitable contributions  
Lease revenue  
Transfers

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR, RESTATED

NET ASSETS - END OF YEAR

See accompanying notes to the basic financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCING AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY
\$ (224,360)	\$	\$ (224,360)	\$	\$
(208,165)		(208,165)		
65,786		65,786		
(66,867)		(66,867)		
(44,135)		(44,135)		
(33,169)		(33,169)		
\$ (510,910)	\$	\$ (510,910)	\$	\$
\$	\$ 84,589	\$ 84,589	\$	\$
	16,098	16,098		
	4,330	4,330		
\$	\$ 105,017	\$ 105,017	\$	\$
\$ (510,910)	\$ 105,017	\$ (405,893)	\$	\$
\$	\$	\$	\$ (275,308)	\$
				(3,119)
\$	\$	\$	\$ (275,308)	\$ (3,119)
\$ 368,155	\$	\$ 368,155	\$ 719,571	\$ 2,182
138,535		138,535		
8,999		8,999		
1,997		1,997		
13,137	19,655	32,792	36,414	126
				389
				2,000
38,182		38,182		
5,385		5,385	31,625	
48,800	(46,800)	2,000		
\$ 623,190	\$ (27,145)	\$ 596,045	\$ 787,610	\$ 4,697
\$ 112,280	\$ 77,872	\$ 190,152	\$ 512,302	\$ 1,578
1,777,842	2,627,738	4,405,580	3,074,382	6,015
\$ 1,890,122	\$ 2,705,610	\$ 4,595,732	\$ 3,586,684	\$ 7,593



CITY OF LITCHFIELD, MICHIGAN  
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	MAJOR FUNDS				TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	RECREATION	
ASSETS					
Cash	\$ 230,442	\$ 205,851	\$ 34,525	\$ 4,691	\$ 475,509
Accounts receivable	746				746
Due from other governmental units	55,844	13,411	4,443		73,698
Due from other funds	1,000				1,000
Prepaid expense	8,750				8,750
TOTAL ASSETS	<u>\$ 296,782</u>	<u>\$ 219,262</u>	<u>\$ 38,968</u>	<u>\$ 4,691</u>	<u>\$ 559,703</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued liabilities	\$ 14,147	\$	\$	\$ 2,675	\$ 16,822
Due to other funds	347			1,000	1,347
Total Liabilities	<u>\$ 14,494</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,675</u>	<u>\$ 18,169</u>
Fund Balances:					
Reserved for:					
Police training - state funding	\$ 1,581	\$	\$	\$	\$ 1,581
Recreation - donor restricted				3,689	3,689
Board designated	45,011				45,011
Unreserved, undesignated	235,696	219,262	38,968	(2,673)	491,253
Total Fund Balances	<u>\$ 282,288</u>	<u>\$ 219,262</u>	<u>\$ 38,968</u>	<u>\$ 1,016</u>	<u>\$ 541,534</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 296,782</u>	<u>\$ 219,262</u>	<u>\$ 38,968</u>	<u>\$ 4,691</u>	<u>\$ 559,703</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2005

GOVERNMENTAL FUND BALANCE \$ 541,534

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds

The cost of capital assets is	\$ 1,604,746	
Accumulated depreciation is	<u>(388,330)</u>	
		1,216,416

Receivables are expected to be collected in future years and are not available to pay for current year expenditures	13,042
---	--------

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Leases	(16,611)
Compensated absences	(37,160)

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund

Assets:	
Cash	76,143

The cost of the capital assets is	\$ 225,733	
Accumulated depreciation is	<u>(122,308)</u>	
		103,425

Liabilities:	
Internal balance	(32,945)

Investments in joint ventures are included as part of governmental activities	<u>26,278</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,890,122</u></u>
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See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

## GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	MAJOR FUNDS				TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	RECREATION	
REVENUES					
Taxes	\$ 368,155	\$	\$	\$	\$ 368,155
State shared revenues	145,041	89,259	27,768		262,068
State grant	5,528				5,528
Charges for services	50,429			13,005	63,434
Licenses and permits	8,999				8,999
Fines, fees, and forfeits	1,997				1,997
Charitable contributions				38,182	38,182
Component unit contributions	45,000				45,000
Interest	9,236	3,204	655	42	13,137
Lease revenue	5,385				5,385
Other	466			1,467	1,933
TOTAL REVENUES	\$ 640,236	\$ 92,463	\$ 28,423	\$ 52,696	\$ 813,818
EXPENDITURES					
Current:					
General government	\$ 292,948	\$	\$	\$	\$ 292,948
Public safety	220,152				220,152
Highways and streets		32,326	24,315		56,641
Public works	86,678				86,678
Parks and recreation	20,557			40,720	61,277
Debt service:					
Principal	23,557				23,557
Interest	2,276				2,276
Capital outlay	14,372			39,962	54,334
TOTAL EXPENDITURES	\$ 660,540	\$ 32,326	\$ 24,315	\$ 80,682	\$ 797,863
REVENUES OVER (UNDER) EXPENDITURES	\$ (20,304)	\$ 60,137	\$ 4,108	\$ (27,986)	\$ 15,955
OTHER FINANCING SOURCES (USES):					
Operating transfers in	\$ 58,000	\$	\$	\$ 24,361	\$ 82,361
Operating transfers out	(24,361)	(6,000)	(2,000)	(1,200)	(33,561)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 33,639	\$ (6,000)	\$ (2,000)	\$ 23,161	\$ 48,800
NET CHANGE IN FUND BALANCE	\$ 13,335	\$ 54,137	\$ 2,108	\$ (4,825)	\$ 64,755
FUND BALANCES - BEGINNING OF YEAR, RESTATED	268,953	165,125	36,860	5,841	476,779
FUND BALANCES - END OF YEAR	\$ 282,288	\$ 219,262	\$ 38,968	\$ 1,016	\$ 541,534

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 64,755
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	\$ (33,169)
Capital outlay	<u>52,444</u>
	19,275
Net income from joint venture is not recorded in the governmental funds, but is recorded in the statement of activities	9,132
Repayment of capital leases is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	23,557
Decreases in accumulated employee sick and vacation pay are recorded when incurred in the statement of activities	(12,539)
Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund	13,520
Included in governmental activities is an expenditure for the forgiveness of the current amount due from a local industrial corporation on a long-term note receivable. Where as, governmental funds recognize revenue and expenditures when cash is either collected or disbursed	(5,000)
Cash collections on delinquent sidewalk receivables are included in the governmental funds, but are not included in revenues in the governmental activities	<u>(420)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 112,280</u>

See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2005

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
ASSETS		
Current Assets:		
Cash	\$ 978,571	\$ 329,899
Accounts receivables	2,435	2,643
Inventory		20,773
Total Current Assets	<u>\$ 981,006</u>	<u>\$ 353,315</u>
Noncurrent Assets:		
Capital assets	\$ 4,216,987	\$ 1,786,640
Accumulated depreciation	(2,746,912)	(884,731)
Total Noncurrent Assets	<u>\$ 1,470,075</u>	<u>\$ 901,909</u>
TOTAL ASSETS	<u><u>\$ 2,451,081</u></u>	<u><u>\$ 1,255,224</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Long-term debt, current portion	\$ 115,000	\$
Accrued liabilities	920	2,719
Accrued Interest	5,150	
Total Current Liabilities	<u>\$ 121,070</u>	<u>\$ 2,719</u>
Noncurrent Liabilities:		
Long-term debt, net of current portion	<u>\$ 915,000</u>	<u>\$</u>
TOTAL LIABILITIES	<u>\$ 1,036,070</u>	<u>\$ 2,719</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 434,925	\$ 901,909
Restricted for equipment replacement		
Restricted for bond repayment	209,028	
Unrestricted	<u>771,058</u>	<u>350,596</u>
Total Net Assets	<u>\$ 1,415,011</u>	<u>\$ 1,252,505</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,451,081</u></u>	<u><u>\$ 1,255,224</u></u>

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NON- MAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 1,087 4,062	\$ 1,309,557 9,140 20,773	\$ 76,143
\$ 5,149	\$ 1,339,470	\$ 76,143
\$	\$ 6,003,627 (3,631,643)	\$ 225,733 (122,308)
\$	\$ 2,371,984	\$ 103,425
\$ 5,149	\$ 3,711,454	\$ 179,568
\$	\$ 115,000 3,639 5,150	\$
\$	\$ 123,789	\$
\$	\$ 915,000	\$
\$	\$ 1,038,789	\$
\$	\$ 1,336,834	\$ 103,425 29,939
5,149	209,028 1,126,803	46,204
\$ 5,149	\$ 2,672,665	\$ 179,568
\$ 5,149	\$ 3,711,454	\$ 179,568

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2005

ENTERPRISE FUND NET ASSETS \$ 2,672,665

Amounts reported for business activities in the statement of net assets are different because:

Internal Service Funds are also included as business activities to the extent of activity  
occurring between Enterprise Funds and the Internal Service Fund 32,945

NET ASSETS OF BUSINESS-TYPE ACTIVITIES \$ 2,705,610

See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
OPERATING REVENUES		
Charges for services	\$ 111,616	\$ 164,894
OPERATING EXPENSES		
General operations and maintenance	\$ 59,893	\$ 100,375
Depreciation	98,059	53,024
TOTAL OPERATING EXPENSES	\$ 157,952	\$ 153,399
OPERATING INCOME (LOSS)	\$ (46,336)	\$ 11,495
NON-OPERATING REVENUES (EXPENSES)		
Interest income	\$ 14,047	\$ 5,609
Interest expense	(22,355)	
Contributions	150,000	
Gain on sale of property		
Wellhead protection grant		602
TOTAL NET NON-OPERATING REVENUES	\$ 141,692	\$ 6,211
INCOME BEFORE OPERATING TRANSFERS	\$ 95,356	\$ 17,706
OPERATING TRANSFERS		
Operating transfers in	\$	\$ 200
Operating transfers out	(25,000)	(20,000)
TOTAL NET OPERATING TRANSFERS	\$ (25,000)	\$ (19,800)
NET INCOME (LOSS)	\$ 70,356	\$ (2,094)
TOTAL NET ASSETS - BEGINNING OF YEAR, RESTATED	1,344,655	1,254,599
TOTAL NET ASSETS - END OF YEAR	\$ 1,415,011	\$ 1,252,505

See accompanying notes to the basic financial statements.



<u>ENTERPRISE FUNDS</u>		<u>INTERNAL SERVICE FUND</u>
<u>NON- MAJOR FUND</u>		
<u>REFUSE</u>	<u>TOTAL</u>	<u>EQUIPMENT</u>
<u>\$ 49,725</u>	<u>\$ 326,235</u>	<u>\$ 39,016</u>
<u>\$ 45,395</u>	<u>\$ 205,663</u>	<u>\$ 36,723</u>
	<u>151,083</u>	
<u>\$ 45,395</u>	<u>\$ 356,746</u>	<u>\$ 36,723</u>
<u>\$ 4,330</u>	<u>\$ (30,511)</u>	<u>\$ 2,293</u>
<u>\$</u>	<u>\$ 19,656</u>	<u>\$ 210</u>
	<u>(22,355)</u>	
	<u>150,000</u>	<u>15,000</u>
	<u>602</u>	<u>5,297</u>
<u>\$</u>	<u>\$ 147,903</u>	<u>\$ 20,507</u>
<u>\$ 4,330</u>	<u>\$ 117,392</u>	<u>\$ 22,800</u>
<u>\$</u>	<u>\$ 200</u>	<u>\$</u>
<u>(2,000)</u>	<u>(47,000)</u>	<u>(2,000)</u>
<u>\$ (2,000)</u>	<u>\$ (46,800)</u>	<u>\$ (2,000)</u>
<u>\$ 2,330</u>	<u>\$ 70,592</u>	<u>\$ 20,800</u>
<u>2,819</u>	<u>2,602,073</u>	<u>158,768</u>
<u>\$ 5,149</u>	<u>\$ 2,672,665</u>	<u>\$ 179,568</u>

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

NET CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS \$ 70,592

Amounts reported for business activities in the statement of activities are different because:

Internal Service Funds are also included as business activities to the extent of activity  
occurring between Enterprise Funds and the Internal Service Fund 7,280

CHANGE IN NET ASSETS OF BUSINESS ACTIVITIES \$ 77,872

See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 111,240	\$ 164,757
Cash receipts for interfund services provided		
Payments to employees	(22,615)	(31,019)
Payments to suppliers	(31,177)	(63,004)
Payments to interfund services provided	(6,482)	(7,335)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 50,966	\$ 63,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Wellhead Protection Grant proceeds	\$ 150,000	\$ 602
Contribution from component unit		
Transfer from other funds		200
Transfer to other funds	(25,000)	(20,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ 125,000	\$ (19,198)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on capital debt	\$ (22,931)	\$
Principal paid on capital debt	(115,000)	
Interfund loan (payment) receipt	25,000	(25,000)
Proceeds from sale of equipment		
Purchase of capital assets		
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (112,931)	\$ (25,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	\$ 14,047	\$ 5,609
NET CHANGE IN CASH	\$ 77,082	\$ 24,810
CASH - BEGINNING OF YEAR	901,489	305,089
CASH - END OF YEAR	\$ 978,571	\$ 329,899
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (46,336)	\$ 11,495
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 98,059	\$ 53,024
Restatement of beginning net assets		
(Increase) decrease in:		
Accounts receivable	(375)	(136)
Increase (decrease) in:		
Accrued liabilities	920	760
Accounts payable	(1,302)	(1,744)
Total Adjustments	\$ 97,302	\$ 51,904
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 50,966	\$ 63,399

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NONMAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 46,105	\$ 322,102	\$
(745)	(54,379)	39,016
(47,970)	(142,151)	(8,380)
	(13,817)	(16,090)
\$ (2,610)	\$ 111,755	\$ 14,546
\$	\$ 602	\$
	150,000	15,000
	200	
(2,000)	(47,000)	(2,000)
\$ (2,000)	\$ 103,802	\$ 13,000
\$	\$ (22,931)	\$
	(115,000)	
		5,297
\$	\$ (137,931)	\$ 5,297
\$	\$ 19,656	\$ 210
\$ (4,610)	\$ 97,282	\$ 33,053
5,697	1,212,275	43,090
\$ 1,087	\$ 1,309,557	\$ 76,143
\$ 4,330	(30,511)	\$ 2,293
\$	\$ 151,083	\$ 12,253
(3,320)	(3,320)	
(3,620)	(4,131)	
	1,680	
	(3,046)	
\$ (6,940)	\$ 142,266	\$ 12,253
\$ (2,610)	\$ 111,755	\$ 14,546

CITY OF LITCHFIELD, MICHIGAN  
FIDUCIARY FUNDS  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2005

	<u>AGENCY FUND</u>	<u>TRUST FUND</u>
	<u>TAX COLLECTION FUND</u>	<u>DEFERRED COMPENSATION</u>
ASSETS		
Investments with agents	\$	\$ 320,688
Due from other governmental units	256	
Due from other funds	<u>347</u>	
TOTAL ASSETS	<u>\$ 603</u>	<u>\$ 320,688</u>
LIABILITIES		
Cash overdraw	\$ 603	\$
Due to employees for deferred compensation		<u>320,688</u>
TOTAL LIABILITIES	<u>\$ 603</u>	<u>\$ 320,688</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Litchfield, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

On June 1, 1970, the City of Litchfield, Michigan (the "City") adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public Safety (Police and Fire), Highways and Streets, Sanitation, Health, Recreation, Public, Improvements, Planning and Zoning, and General Administrative Services.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

In conformity with generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Units - The component unit columns in the combined financial statements include the financial data of the City's component units. The units are reported in a separate column to emphasize they are legally separate from the City.

Tax Increment Finance Authority (TIFA) - The Authority is governed by a separate board appointed by the City Council to promote economic growth in the City of Litchfield.

Downtown Development Authority - The Authority is governed by a separate board appointed by the City Council to formulate plans for design, promotion and organization, and economic restructuring of the City's downtown area.

Brownsfield Redevelopment Authority (BRA) - The Authority was established under the authority contained in Act 381, of the Michigan Public Acts of 1996, as amended. The Authority is governed by a separate board appointed by the City Council to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas so as to promote revitalization in the City of Litchfield.

The combined financial statements do not include financial data of the Brownsfield Redevelopment Authority since it did not have any financial transactions during the year ended June 30, 2005.

Copies of the TIFA and DDA financial statements may be obtained at the City offices located at 221 Jonesville Street, Litchfield, Michigan 49252.

Joint Venture - Discussed at Note 2.

CITY OF LITCHFIELD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECONOMIC DEPENDENCY

The City is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the City's operating results would report expenditures exceeding revenues in its General, Major Street, and Local Street Funds. Furthermore, the aforementioned funds would be in a deficit position within a two year period continuing the programs the City currently offers.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL  
STATEMENT PRESENTATION (CONTINUED)

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major and Local Street Funds* are Special Revenue Funds that account for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of these funds include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

The *Recreation Fund* is a Special Revenue Fund that accounts for resources that are expended on recreation activities carried out by the City. Revenue is primarily comprised of public and private donations, grants, service charges.

The City reports the following major proprietary funds:

The *Water and Sewer Funds* are the City's only major proprietary funds. They account for the activities of the water distribution and sewage collection systems.

Additionally, the City reports the following fund types:

Governmental Funds

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

*Enterprise Funds* are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.



CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL  
STATEMENT PRESENTATION (CONCLUDED)

The *Internal Service Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 35% and 65% of its activity with business-type and governmental activities, respectively. As a result, the assets and equity were reported in governmental activities and the net profit was allocated on a pro rata basis, based on the aforementioned percentages, to each of the activities.

Fiduciary Funds (Not included in government-wide statements)

*Fiduciary Funds* are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support City operations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The City presently collects and distributes property taxes on behalf of and to other local units of government.

General Information

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

BANK DEPOSITS

Cash includes cash on hand, demand deposits, savings, certificate of deposits and municipal mutual funds that are highly liquid.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are reported at their net realizable values.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 2 years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend assets life are not capitalized but rather expensed in the period incurred.

The City has elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives. There were no additions to infrastructure during the year.

Buildings, improvements, equipment and vehicles are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Improvements	10 - 20
Equipment	3 - 20
Vehicles	3 - 5

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused sick and vacation leave time. A total of 5 to 25 days vacation and 6 days of sick leave per year may be accumulated by each employee. Employees are allowed to accumulate and carryover ten vacation days to the following year with management approval. Otherwise vacation time not used is forfeited.

Furthermore, employees are allowed to accumulate no more than sixty days of sick leave time. Upon termination of employment, if an employee has five consecutive years or more of employment service the employee will be paid one-fourth of their accumulated unused sick leave time. Employees with ten consecutive years or more of employment service will be paid one-half of their accumulated unused sick leave time upon termination. Upon retirement, an employee will receive pay at their regular hourly rate for a maximum thirty days of accumulated unused sick leave time.

During the year the net increase in compensated absences was \$12,540 leaving an ending balance of \$37,160.

CITY OF LITCHFIELD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements and the proprietary fund types reported in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

PROPERTY TAX

The City of Litchfield, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed and become a lien as of December 31, and the related real property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all of the City's uncollected delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2005.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BUDGETS AND BUDGETARY ACCOUNTING

The City's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that change the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the City Council. The General Fund budget is adopted at the department level and all other funds are adopted at the fund level.

NOTE 2: JOINT VENTURE

The City participates with the Litchfield Township in the Litchfield Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between the two parties. In accordance to the provisions of Governmental Accounting Standards Board No. 14 the joint venture results from the on going financial responsibility of the Department's operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. A seven member Board of Directors comprised of two members of the City of Litchfield Council, two members of Litchfield Township Board, one member of Scipio Township and Butler Township Boards, and one member from the community at large govern the Department.

Either the City or Litchfield Township has the power to terminate the joint venture. However, notice of termination must be given six months prior to the Department's fiscal year end. Upon termination, all property of the Litchfield Fire Department will be liquidated and any outstanding indebtedness will be paid. The proceeds then remaining will be divided equally between the City of Litchfield, Michigan and the Litchfield Township.

The Department is funded by fire contracts with local townships and equal contributions made by the City of Litchfield, Michigan and the Litchfield Township. The Fire Department reported revenues in excess of expenditures in the amount of \$18,263 in its year end June 30, 2005 general ledger. The City of Litchfield, Michigan reported \$9,132 (fifty-percent) of the revenues over expenditures in its government-wide financial statements in governmental activities. The City's investment in the joint venture is reported in the statement of net assets under governmental activities in the amount of \$26,278. The financial activity of the Fire Department for its year ended June 30, 2005 has not been audited, and we were not engaged to audit the Fire Department's financial statements as part of our audit of the City's basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2: JOINT VENTURE (CONCLUDED)

At year end June 30, 2005 the Department does not have title to any real property or rescue vehicles. The City of Litchfield, Michigan and the Litchfield Township have title, either jointly or individually, to all fire rescue vehicles used in the Department's operations. Additionally, the City and the Township are mutually obligated in a capital lease agreement to finance a rescue vehicle; see Note 7.

Copies of the Fire Department's financial statements may be obtained at the City of Litchfield, Michigan offices.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, deposits and investments were comprised of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash	\$ 516,443	\$ 1,100,529	\$ 1,616,972	\$ 1,650,637
Cash - restricted	<u>35,209</u>	<u>209,028</u>	<u>244,237</u>	
	\$ <u>551,652</u>	\$ <u>1,309,557</u>	\$ <u>1,861,209</u>	\$ <u>1,650,637</u>
Investments	\$ _____	\$ _____	\$ _____	\$ 410,315
Total	\$ <u>551,652</u>	\$ <u>1,309,557</u>	\$ <u>1,861,209</u>	\$ <u>2,060,952</u>

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 3: CASH AND INVESTMENTS (CONCLUDED)

The breakdown between cash and investments for the City and component units are as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Cash (checking accounts, savings accounts and Certificates of Deposits)	\$ 1,861,109	\$ 1,650,637
Investment in money market fund		410,315
Petty cash	100	
Total	<u>\$ 1,861,209</u>	<u>\$ 2,060,952</u>

Deposits

The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$3,523,014. Of that amount, \$1,289,671 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the City. As of June 30, 2005, the City's component unit, the Tax Increment Financing Authority, held investments in a money market fund, totaling \$410,315, which was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form.

The City accounts for assets in the amount of \$320,688 held in an agency capacity for its employees' Internal Revenue Code Section 457 deferred compensation plan. These assets are not available for City operations.

The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 4: CAPITAL ASSETS

Capital asset activity of the primary government was as follows:

	Balance – Restated July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 866,073	\$	\$	\$ 866,073
Capital assets being depreciated:				
Buildings and improvements	316,082			316,082
Equipment	514,800	5,528		520,328
Vehicles	63,080			63,080
Technology	18,000	6,954		24,954
Pool		39,962		39,962
Subtotal	\$ 1,778,035	\$ 52,444	\$	\$ 1,830,479
Accumulated depreciation:				
Buildings and improvements	\$ 183,567	\$ 5,297	\$	\$ 188,864
Equipment	228,035	27,202		255,237
Vehicles	47,747	7,666		55,413
Technology	5,867	5,257		11,124
Pool				
Subtotal	\$ 465,216	\$ 45,422	\$	\$ 510,638
Net Capital Assets	\$ 1,312,819	\$ 7,022	\$	\$ 1,319,841

The beginning equipment and related accumulated depreciation balances were restated to include the capital assets of the Internal Service Fund that were reported in business-type activities in fiscal year ended Jun 30, 2004. The restatement is the result of a change in the City's accounting policy regarding the reporting treatment of the Internal Service Fund in its basic financial statements. See Note 15 for additional disclosure on the restatement. Because of this change depreciation expense of \$45,422 is comprised of unallocated and allocated depreciation expense of \$33,169 and \$12,253, respectively. Allocated depreciation expense is specifically identifiable with a City department, where as, unallocated is not because it is attributable to multiple departments.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 4: CAPITAL ASSETS (CONCLUDED)

	Balance -- Restated July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>Business-type Activities</u>				
Capital assets not being depreciated:				
Land	\$ 265,571	\$	\$	\$ 265,571
Capital assets being depreciated:				
Water and sewer distribution system	\$ 5,715,156	\$	\$	\$ 5,715,156
Vehicles	22,900			22,900
Subtotal	\$ 6,003,627	\$	\$	\$ 6,003,627
Accumulated depreciation:				
Water and sewer distribution system	\$ 3,477,888	\$ 146,503	\$	\$ 3,624,391
Vehicles	2,672	4,580		7,252
Subtotal	\$ 3,480,560	\$ 151,084	\$	\$ 3,631,643
Net Capital Assets	\$ 2,523,067	\$ (151,084)	\$	\$ 2,371,984

Depreciation expense charged to business-type activities was \$151,084.

NOTE 5: NOTE RECEIVABLE

In January 1997 the City entered into an agreement to sell land to a local industrial company in the amount of \$50,000. The terms of the agreement require the local company to pay \$5,000 annually, including interest at 10%. However, if the local company achieves employment levels annually as stated in the agreement the City will forgive the annual principal payments, including interest, each year employment levels are met.

During the year the City forgave principal payments of \$5,000. At June 30, 2005 the outstanding balance due from the local company was \$12,500. The City anticipates the company will meet employment levels in future years. Therefore, the City does not anticipate collecting interest on the outstanding balance. However, future principal maturities are as follows:

<u>June 30</u>	<u>Amount</u>
2006	\$ 5,000
2007	5,000
2008	<u>2,500</u>
	<u>\$ 12,500</u>



CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 6: OPERATING LEASE

During the year the City entered into a lease agreement to lease City owned farmland to a local individual. The terms of the lease require the local individual to pay the City \$5,385 annually, through April 1, 2009.

Future minimum lease payments to be received from the local individual are as follows:

<u>June 30</u>	<u>Amount</u>
2006	\$ 5,385
2007	5,385
2008	5,385
2009	<u>5,385</u>
Total	<u>\$ 21,540</u>

NOTE 7: LONG-TERM DEBT

Long-term debt at June 30, 2005 is comprised of the following:

Capital lease payable to Emergency One for fire equipment, payable in annual installments of \$26,000 to \$33,000 at an annual interest rate of 5.64% through February 3, 2006

\$ 16,611

Revenue Bonds, \$2,190,000 Michigan State Revolving Loan due in annual installments of \$25,000 to \$135,000 at an annual interest rate of 2% through April 1, 2014

1,030,000

\$ 1,046,611

Less: current portion of long-term debt

131,611

TOTAL LONG-TERM DEBT

\$ 915,000

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 7: LONG-TERM DEBT (CONCLUDED)

The following is a summary of changes in long-term debt:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
<u>Governmental Activities</u>				
Capital lease - General Motors Corp.	\$ 7,863	\$	\$ 7,863	\$
Capital lease - Emergency One	32,305		15,694	16,611
Total Governmental Activities	\$ 40,168	\$	\$ 23,557	\$ 16,611
<u>Business-type Activities</u>				
Revenue bonds	\$ 1,145,000	\$	\$ 115,000	\$ 1,030,000
	\$ 1,185,168	\$	\$ 138,557	\$ 1,046,611

Cash paid for interest during the year totaled \$25,782. Interest expense incurred during the year totaled \$25,702 and is reported as a direct function expense.

The following is a schedule of principal and interest maturities:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 16,611	\$ 2,500	\$ 19,111	\$ 115,000	\$ 20,600	\$ 135,600
2007				120,000	18,300	138,300
2008				120,000	15,900	135,900
2009				125,000	13,500	138,500
2010				130,000	11,000	141,000
2011-2015				420,000	18,300	438,300
	\$ 16,611	\$ 2,500	\$ 19,111	\$ 1,030,000	\$ 97,600	\$ 1,127,600

NOTE 8: DEFERRED COMPENSATION PLAN

The City offers eligible employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The City matches employee contributions into the Plan up to a maximum of 7.0% of the employees' base pay, excluding overtime. Employees are 100% vested in employer contributions after three years of full-time employment, and earnings there on. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

CITY OF LITCHFIELD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 8: DEFERRED COMPENSATION PLAN (CONCLUDED)

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the participants' rights under the Plan in an amount equal to the fair market value of the deferred account for each participant.

Total plan assets at June 30, 2005 were \$320,688.

NOTE 9: EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Recreation Fund budget of the City was adopted at the fund level. During the year ended June 30, 2005, the City incurred expenditures in the fund, which were in excess of the amended budget as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Recreation Fund	<u>\$ 79,255</u>	<u>\$ 80,882</u>	<u>\$ 1,627</u>

NOTE 10: FUND EQUITIES

Reserved, designated and undesignated fund balances and net assets at June 30, 2005 were as follows:

	<u>Restricted/ Reserved</u>	<u>Designated</u>
Governmental Activities:		
<u>Fund Balance/Net Assets</u>		
General Fund		
Police cars	\$	\$ 23,000
Police training -- Act 302	1,581	
Fire truck		21,100
Parks		911
	<u>\$ 1,581</u>	<u>\$ 45,011</u>
Recreation Fund		
Summer ball program	\$ 625	\$
Swimming pool	3,064	
	<u>\$ 3,689</u>	<u>\$</u>
Equipment Fund		
Equipment replacement	<u>\$ 29,939</u>	<u>\$</u>
Business-type Activities:		
<u>Net Assets</u>		
Sewer Fund		
Bond repayment	<u>\$ 209,028</u>	<u>\$</u>

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 11: OPERATING TRANSFERS

Interfund transfers for the current year are as follows:

General Fund Activity

Transfers in to:	Transfers (out) from:	
General Fund	Recreation Fund	\$ 1,000
General Fund	Major Street Fund	6,000
General Fund	Local Street Fund	2,000
General Fund	Refuse Fund	2,000
General Fund	Sewer Fund	25,000
General Fund	Water Fund	20,000
General Fund	Equipment Fund	<u>2,000</u>
Total		<u>\$ 58,000</u>

Recreation Fund	General Fund	<u>\$ (24,361)</u>
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Recreation Fund Activity

Transfers in to:	Transfers (out) from:	
Water Fund	Recreation Fund	<u>\$ 200</u>

Transfers from the General Fund to other funds are to support the operations of those funds. Transfers from other funds to the General Fund are reimbursements for administration support.

Transfer from the Recreation Fund to the Water Fund is reimbursement for water usage in the City's swimming pool.

NOTE 12: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (due from) and interfund payables (due to) reported in governmental activities and fiduciary fund:

Due From - <u>Collectible By:</u>	Due To - <u>Payable By:</u>	
Tax Agency Fund	General Fund	<u>\$ 347</u>
For excess distribution of interest income		
General Fund	Recreation Fund	<u>\$ 1,000</u>
For summer ball expenditures paid by the General Fund		

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 13: COMPONENT UNIT CONTRIBUTIONS

During the year the City of Litchfield's Tax Increment Financing Authority (TIFA) contributed \$210,000 to the City's operations to support the following activities:

<u>General Fund</u>	
City's administration support to TIFA	\$ 20,000
Fire support to the industrial park	<u>25,000</u>
	<u>\$ 45,000</u>
 <u>Internal Service Equipment Fund</u>	
Capital support for equipment replacement	<u>\$ 15,000</u>
 <u>Water Fund</u>	
Support towards bond obligation	<u>\$ 150,000</u>

NOTE 14: RISK MANAGEMENT

The City of Litchfield, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The City of Litchfield, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific City of Litchfield, Michigan facilities or events.

The City participates in the Michigan Municipal League Workers Compensation Fund, a public risk pool established to operate a common risk management and insurance program for municipalities. The City pays premiums to the Fund for its workers' disability compensation insurance coverage. The agreement for formation of the fund provides that the Fund will be self-sustaining through member premiums.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 15: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, would be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2005.

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 16: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2005 the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 40 – *Deposit and Investment Risk Disclosures*

NOTE 17: CHANGES IN ACCOUNTING POLICIES –  
FUND BALANCE AND NET ASSET RESTATEMENTS

During the year the City changed its accounting policy relating to certain year end transactions and reporting its Internal Service Fund's financial position and activity.

Governmental Funds

The City receives revenue sharing and Act 51 transportation money from the State of Michigan during the course of the year. The two final payments for the City's fiscal year ending June 30 for the months March/April and May/June are received in July and August, respectively, in its following fiscal year. Historically, the City has accrued the receipt of the March/April payment as revenue at June 30 but recorded the May/June payment received from the State of Michigan on the cash basis in the following fiscal year as revenue. The City has always recognized equal number of payments from the State each year but the last payment has never been accrued. The net effect on the City's financial statements, from one year to the next, resulting from reporting the final payment due from the state as revenue in the following fiscal year has been immaterial. However, the City recognizes that proper accounting treatment is to recognize the May/June payment at June 30. Therefore, the City has restated the following fund balances at June 30, 2005.

	<u>Fund Balance June 30, 2004</u>	<u>Restatement</u>	<u>Fund Balance July 1, 2004</u>
General Fund	<u>\$ 243,382</u>	<u>\$ 25,571</u>	<u>\$ 268,953</u>
Major Street Fund	<u>\$ 157,506</u>	<u>\$ 7,619</u>	<u>\$ 165,125</u>
Local Street Fund	<u>\$ 34,378</u>	<u>\$ 2,482</u>	<u>\$ 36,860</u>

Enterprise Funds

Historically, the City has not recorded inventory in its Water Fund for supplies on hand used to repair water-mains, hydrants, etc. During the year the City developed an inventory system to account for purchases and usage of supply inventory. Following is the restatement of beginning net assets in the Water Fund.

	<u>Net Assets June 30, 2004</u>	<u>Restatement</u>	<u>Net Assets July 1, 2004</u>
Water Fund	<u>\$ 1,241,253</u>	<u>\$ 13,346</u>	<u>\$ 1,254,599</u>

CITY OF LITCHFIELD, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2005

NOTE 17: CHANGES IN ACCOUNTING POLICIES –  
FUND BALANCE AND NET ASSET RESTATEMENTS (CONCLUDED)

Enterprise Funds (Concluded)

Historically, the City has not accrued a liability, at year end June 30, for the July payment for garbage services provided in June but rather has recorded the payment as an expense in July of the following fiscal year. In the past couple of years there has not been a change in the garbage collection service contract and therefore no effect on the amount of annual cost. However, in fiscal year ended June 30, 2005 the contract amount changed and the accrual effect, though immaterial to the financial statements, from one year to the next resulted in an increase in actual expense incurred at year end. Following is the restatement of beginning net assets in the Refuse Fund to correctly report expenses in the period incurred.

	<u>Net Assets</u> <u>June 30, 2004</u>	<u>Restatement</u>	<u>Net Assets</u> <u>July 1, 2004</u>
Refuse Fund	<u>\$ 6,139</u>	<u>\$ (3,320)</u>	<u>\$ 2,819</u>

Internal Service Fund

Subsequent to the City's implementation of GASB #34 at June 30, 2004, the City performed a study of the activity occurring between the Equipment Internal Service Fund and governmental and enterprise funds to identify the anticipated activity that will occur in future reporting periods. The results of the study indicate that governmental funds use of equipment will exceed that of the enterprise funds. Therefore, the City has changed its accounting policy to report the financial position of the Equipment Internal Service Fund in governmental activities on the government-wide financial statements. The result of this change required a restatement of beginning net assets. Therefore, an increase and decrease in the amount of \$107,438 was made to the net assets of governmental and business-type activities, respectively.

Government-Wide Financial Statements

The net effect of all the disclosed restatements to government-wide beginning net assets is as follows:

	<u>Net Assets</u> <u>June 30, 2004</u>	<u>Restatement</u>	<u>Net Assets</u> <u>July 1, 2004</u>
Governmental Activities	<u>\$ 1,634,732</u>	<u>\$ 143,110</u>	<u>\$ 1,777,842</u>
Business-type Activities	<u>\$ 2,725,150</u>	<u>\$ (97,412)</u>	<u>\$ 2,627,738</u>

REQUIRED SUPPLEMENTAL INFORMATION



CITY OF LITCHFIELD, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
Taxes	\$ 363,819	\$ 363,819	\$ 368,155	\$ 4,336
State shared revenues	142,481	144,921	145,041	120
State grant	-	-	5,528	5,528
Charges for services	144,027	50,267	50,429	162
Licenses and permits	8,609	8,609	8,999	390
Fines, fees, and forfeits	4,000	2,138	1,997	(141)
Component unit contributions	35,000	45,000	45,000	
Interest	8,000	8,000	9,236	1,236
Lease revenue	5,385	5,385	5,385	
Other	11,500		466	466
TOTAL REVENUES	\$ 722,821	\$ 628,139	\$ 640,236	\$ 12,097
EXPENDITURES				
General government	\$ 345,408	\$ 294,989	\$ 275,529	\$ 19,460
Public safety	297,971	251,332	237,571	13,761
Public works	99,497	97,636	86,678	10,958
Parks	22,886	27,335	20,557	6,778
Debt service:				
Principal	23,549	23,549	23,557	(8)
Interest	2,286	2,286	2,276	10
Capital outlay		7,989	14,372	(6,383)
TOTAL EXPENDITURES	\$ 791,597	\$ 705,116	\$ 660,540	\$ 44,576
REVENUES OVER (UNDER) EXPENDITURES	\$ (68,776)	\$ (76,977)	\$ (20,304)	\$ 56,673
OTHER FINANCIAL SOURCES (USES)				
Operating transfers in	\$ 53,000	\$ 58,000	\$ 58,000	\$
Operating transfers (out)	(22,584)	(28,751)	(24,361)	4,390
TOTAL OTHER FINANCING SOURCES	\$ 30,416	\$ 29,249	\$ 33,639	\$ 4,390
NET CHANGE IN FUND BALANCE	\$ (38,360)	\$ (47,728)	\$ 13,335	\$ 61,063
FUND BALANCE - BEGINNING OF YEAR, RESTATED	268,953	268,953	268,953	
FUND BALANCE - END OF YEAR	\$ 230,593	\$ 221,225	\$ 282,288	\$ 61,063

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND -  
MAJOR STREET

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
State revenues	\$ 85,891	\$ 94,215	\$ 89,259	\$ (4,956)
Interest	800	800	3,204	2,404
TOTAL REVENUES	<u>\$ 86,691</u>	<u>\$ 95,015</u>	<u>\$ 92,463</u>	<u>\$ (2,552)</u>
EXPENDITURES				
Trunkline maintenance	\$ 11,820	\$ 12,831	\$ 5,021	\$ 7,810
Road maintenance	34,936	25,366	16,749	8,617
Operating supplies	2,669	2,669	3,557	(888)
Employee benefits	8,347	7,177	6,999	178
TOTAL EXPENDITURES	<u>\$ 57,772</u>	<u>\$ 48,043</u>	<u>\$ 32,326</u>	<u>\$ 15,717</u>
REVENUES OVER EXPENDITURES	<u>\$ 28,919</u>	<u>\$ 46,972</u>	<u>\$ 60,137</u>	<u>\$ 13,165</u>
OTHER FINANCING (USES)				
Operating transfers (out)	\$ (6,000)	\$ (6,000)	\$ (6,000)	\$
NET CHANGE IN FUND BALANCE	\$ 22,919	\$ 40,972	\$ 54,137	\$ 13,165
FUND BALANCE - BEGINNING OF YEAR, RESTATED	<u>165,125</u>	<u>165,125</u>	<u>165,125</u>	
FUND BALANCE - END OF YEAR	<u>\$ 188,044</u>	<u>\$ 206,097</u>	<u>\$ 219,262</u>	<u>\$ 13,165</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND -  
LOCAL STREET  
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
State revenues	\$ 23,610	\$ 28,046	\$ 27,768	\$ (278)
Interest	100	100	655	555
TOTAL REVENUES	<u>\$ 23,710</u>	<u>\$ 28,146</u>	<u>\$ 28,423</u>	<u>\$ 277</u>
EXPENDITURES				
Road maintenance	\$ 17,842	\$ 19,242	\$ 14,762	\$ 4,480
Operating supplies	2,056	2,056	2,789	(733)
Employee benefits	7,953	6,783	6,764	19
TOTAL EXPENDITURES	<u>\$ 27,851</u>	<u>\$ 28,081</u>	<u>\$ 24,315</u>	<u>\$ 3,766</u>
REVENUES OVER EXPENDITURES	<u>\$ (4,141)</u>	<u>\$ 65</u>	<u>\$ 4,108</u>	<u>\$ 4,043</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 6,141	\$	\$	\$
Operating transfers (out)	(2,000)	(2,000)	(2,000)	
TOTAL OTHER FINANCING (USES)	<u>\$ 4,141</u>	<u>\$ (2,000)</u>	<u>\$ (2,000)</u>	<u>\$</u>
NET CHANGE IN FUND BALANCE	\$	\$ (1,935)	\$ 2,108	\$ 4,043
FUND BALANCE - BEGINNING OF YEAR, RESTATED	<u>36,860</u>	<u>36,860</u>	<u>36,860</u>	
FUND BALANCE - END OF YEAR	<u><u>\$ 36,860</u></u>	<u><u>\$ 34,925</u></u>	<u><u>\$ 38,968</u></u>	<u><u>\$ 4,043</u></u>

See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - MAJOR SPECIAL REVENUE FUND -  
RECREATION

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUE				
Pool	\$ 10,700	\$ 55,284	\$ 49,979	\$ (5,305)
Sweet corn days	2,500		300	300
Summer ball	7,000	1,500	2,417	917
TOTAL REVENUES	\$ 20,200	\$ 56,784	\$ 52,696	\$ (4,088)
EXPENDITURES				
Pool	\$ 30,055	\$ 74,692	\$ 74,093	\$ 599
Sweet corn days	3,000	2,493	3,243	(750)
Jr. pro basketball		2,070		2,070
Summer ball	7,000		3,346	(3,346)
TOTAL EXPENDITURES	\$ 40,055	\$ 79,255	\$ 80,682	\$ (1,427)
REVENUES OVER EXPENDITURES	\$ (19,855)	\$ (22,471)	\$ (27,986)	\$ (5,515)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 22,384	\$ 28,551	\$ 24,361	\$ (4,190)
Operating transfers (out)		(1,000)	(1,200)	
TOTAL OTHER FINANCING (USES)	\$ 22,384	\$ 27,551	\$ 23,161	\$ (4,190)
NET CHANGE IN FUND BALANCE	\$ 2,529	\$ 5,080	\$ (4,825)	\$ (9,705)
FUND BALANCE - BEGINNING OF YEAR, RESTATED	5,841	5,841	5,841	
FUND BALANCE - END OF YEAR	\$ 8,370	\$ 10,921	\$ 1,016	\$ (9,705)

See accompany notes to the basic financial statements.

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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## GAO GOVERNMENT AUDITING STANDARDS REPORT

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council  
City of Litchfield  
Litchfield, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Litchfield as of and for the year ended June 30, 2005, which collectively comprise the City of Litchfield's basic financial statements and have issued our report thereon dated August 17, 2005. The opinion on the City's governmental activities financial statements was qualified because the City included in those statements its investment in Litchfield Fire Department, a joint venture between the City of Litchfield and Litchfield Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the City of Litchfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Litchfield's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management and the State of Michigan. However, this report is a matter of public records and its distribution is not limited.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan  
August 17, 2005



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## COMMUNICATON TO CITY COUNCIL

August 17, 2005

To the City Council  
City of Litchfield  
Litchfield, Michigan 49252

We have audited the financial statements of City of Litchfield for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Litchfield are described in Note 1 to the financial statements. We noted no transactions entered into by City of Litchfield during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

2. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Budget information is the only estimate noted during our audit.

3. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on City of Litchfield's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Litchfield, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Litchfield's financial reporting process.



4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Litchfield's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

6. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Litchfield auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City of Litchfield. It is not intended to be and should not be used by anyone other than these specified parties.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants